

# A Study on Management of Organizational Scandals : From the Viewpoint of Corporate Governance

著者	Toma Masayoshi
journal or publication title	Wako Keizai
volume	47
number	1
page range	9-15
year	2014-08
URL	<a href="http://id.nii.ac.jp/1073/00003585/">http://id.nii.ac.jp/1073/00003585/</a>

# A Study on Management of Organizational Scandals

- From the Viewpoint of Corporate Governance -

Masayoshi Toma

## [Abstract]

The aim of this paper is to consider the management which controls the occurrence of the organizational scandals. It is important on the purpose of corporate governance not to generate scandals. In a firm, the scandals are generated by persons with authority or power. And it seems that there is custom in which the whole organization admits these. It is thought from this viewpoint that corporate culture is important. However, the origins are deeper. It is because why it is hard to think that the employees of a firm cause scandals and admit these. This paper noted that the person with authority or power utilizes mechanisms of a small group as a viewpoint which the organizational scandals generate. The solutions of the scandals were considered by focusing on this mechanism.

## [Keywords]

Organizational Scandals, Corporate Governance, Group Cohesiveness, Group Think, Power

## 1. Introduction

In recent years, about the scandals of the firms, it is often reported by media etc. Their scandals are very important things from the viewpoint of corporate governance. This generally asks the soundness of a firm. Therefore, it can't be overemphasized that it is the purpose to improve to prevent the scandals and profitability of a firm [1]. Why are the scandals of a firm occurring frequently? The persons who generate scandals exist naturally. In addition, there is the organizational culture which admits these. Its attention is paid to the importance of the organizational culture as a thinking custom of a firm. However, the origins which the organizational scandals generate seem to be far by explaining from the viewpoint of "corporate culture". Then, it is necessary to explain a few more and to

consider. It is considered by the justification of the organizational scandals that group dynamics is working. Then, it is required to focus on action of the small group in an organization and to consider the origins of the organizational scandals. From these viewpoints, it is considered as the key concept which solves the occurrence of the organizational scandals in this paper. And the consideration was tried as a proposal of management that the organizational scandals are controlled.

## 2. Corporate Governance and Corporate Scandals

### 2.1. The trend of organizational scandals in some industries

The mass media will take up the organizational scandals on a grand scale, and has actualized

them more [2, pp. 34–40]. Some matters serve as the backdrop. Dissolution of Mutual cross-shareholding advanced as collapse of the bubble economy, or correspondence after the Lehman shock. Simultaneously, the state of stockholder sovereignty will change and employee sovereignty was asked. Under their influences, firms have to change the personnel evaluation system. As a result, confusion arose in the personnel management in an organization. The confusion broke down the informal norms of the organization. From the above background, the organizational scandals in a firm expressed more often outside. As preliminary information for discussing corporate scandals, Table 1 is shown the kinds of scandals committed by Japanese firms for different industries.

The following characteristics are common to corporate scandals that have been uncovered [2, pp. 26–28].

- (1) Insider whistle-blowing.
- (2) Press conferences that do not reveal truths.
- (3) Criticisms from the public regarding concealment of obtained facts.
- (4) A problem becoming a public concern when unannounced misconducts are revealed by

the media.

- (5) Suspension of business operations, consumer boycott, falling profits, financial crises.
- (6) Revelation by police of a crime.

As these common characteristics suggest, corporate scandals tend to progressively worsen, which contrasts with the fact that people want firms to contribute to society, as reflected in concepts such as corporate ethics, corporate compliance, and corporate social responsibility. In such a case, the social impact of a firm's scandal can widely spread and consequently limit the range of actions that the firm can take [2, pp. 30–32]. For example, a corporate scandal can lead to criticisms from consumers and users and then to a product boycott, a significant drop in profits, and, in an extreme case, bankruptcy. Also, a firm's scandal can reduce its brand value, that is, its corporate reputation. In addition, it is very likely that firms whose scandals stir public opinion will come under closer scrutiny from their stakeholders as well as government and judicial authorities. Corporate scandals are therefore highly likely to cause losses to the responsible firms. Now, it is hard to say that sound management is made on corporate governance.

Table 1: Corporate scandals in different industries

Industry	Type of wrongdoing
Food	Food poisoning, falsified labeling, unapproved additives
Pharmaceutical	Adverse side effects
Electric machinery	Bill padding
Automobile	Cover-up to avoid a recall
Construction	Slipshod work, collusion
Energy	Criticality accident, cover-up of problems
Communications	Leakage of personal information
Distribution	Falsified labeling
Medical	Malpractice, falsification of diagnostic records, misstatement
Trading	Illegal transaction/trade/purchase
Consulting	Bid-rigging
Leisure	Use of industrial water as drinking water, launching of excessive fireworks
Financial	Ex post loss compensation, cover-up of non-performing loans, illegal transactions

[2, p. 17, "scandals of Japan"]

## 2.2. The generating key factor of the scandal in an organization

Why do corporate scandals occur? Why do firms conceal scandals? Haven't firms implemented measures to prevent corporate scandals? To answer these questions, we need to examine organizational factors that can result in scandals. Some of these factors exist at the individual level (i.e., among managers and employees of an organization) while others arise from relationships with stakeholders. Of course, the existence of laws and regulations can be taken as a given.

Generally, who is the subject which generates the organizational scandals? If it glances, all the members will be applicable in an organization. First, if the rank-and-file employee positioned in the bottom of the heap in an organizational hierarchy generates scandals, what will happen to him/her? In that case, the administrator and the manager who are bosses them solve the scandals. That is because it becomes their responsibility in the course of duties. Therefore, the scandals which the rank-and-file employee caused tend to be solved in an organization. Then, who takes the lead scandals and who really generates them? Next, it thinks of those who have authority as a manager or an administrator. Their own authority in work has the influence to the others. This influence is accompanied by the legal force which the others are made to follow. Therefore, it has a possibility of generating scandals and making this concealing. However, he is not only a person who has authority like them. In fact, a person with leadership on his/her work is also applicable. Because the persons with capability and technology on their works can use the power to a manager or an administrator [3]. Therefore, the subjects which generate the scandals in a firm are based on the person who has authority and power in an organization in many cases.

As mentioned above, the subjects of the organizational scandals were examined. Then, we should examine factors that promote corporate scandals. This paper thus takes the premise that corporate scandals arise from systems of human cooperation embodied in organizations. In other words, corporate scandals result from mechanisms within organizations. Extraordinary forces are considered to be at work, preventing organizations from averting the occurrence of scandals [4].

## 3. Fundamental Organizational Mechanisms That Can Lead to Scandals

### 3.1. Corporate Governance and Organizational Culture: Survey Results

Another question regards corporate governance and organizational culture [5]: Does your company consider corporate governance to be deeply related to organizational culture? The responses provided by the firms to the question are as follows: no relationship at all (7.2%); not much relationship (15.6%); unsure (40.7%); some relationship (25.7%); a significant relationship (10.8%). Approximately 36% of the respondent firms think that there is some relationship or a significant relationship between corporate governance and organizational culture. This rather small percentage may support the idea that organizational culture arises from internal workings of organizations. Perhaps, the firms in the survey are those that are not prone to corporate scandals. As mentioned above, the relations of the organizational scandals and the organizational culture are not likely to be direct relations.

### 3.2. Preventing Corporate Scandals

The previous section focused on organizational culture and argued that it is difficult to find

a solution that prevents corporate scandals. This section thus shifts focus away from organizational culture to small group behavior. This section examines small group behavior, under the assumption that it can cause or promote organizational wrongdoing.

#### 4. Management as controls of the organizational scandals

##### 4.1. Symptoms and Countermeasures of Corporate Scandals

Highly unified organizations and small groups show a high level of solidarity. Such groups are generally said to have a high level of group cohesiveness [6, Chapter 13]. An excessively high level of group cohesiveness, however, tends to result in carelessly executed internal control and to lead the organization in the wrong direction. Underlying this group cohesiveness is the concept of groupthink.

Groupthink is a concept introduced by Irving Janis [6, Chapter 13]. Through experiments, Janis discovered that many decisions made by small groups turned out to be faulty. Realistic assessments and opinions, minority opinions, and unpopular opinions tend to be ignored in groupthink. Groupthink usually occurs when members of a group overvalue their group and undervalue other groups or when diversity in opinions is suppressed. Therefore, groupthink tends to bring negative outcomes to the group as it fails to reassess incompleteness in problem assessment, insufficient information collection, biases in information processing processes, and options to be considered.

When a group makes decisions based on consensus the group's strong unity leads it in the wrong direction. A group has a tendency to consider things that are appropriate at the individual level as absurd or unreasonable.

Groupthink can be regarded as an undesirable ramification of thinking as a group. Several mistakes occur in group decision making. Various examples include failure to conduct analysis of the current situation as needed for decision making, failure to collect detailed information, and repeated failure to make corrections to avoid risk or folly. In any case, groupthink does not have a positive effect on organizational decision making and behavior.

##### 4.2. Concealment action of the scandals

When a corporate scandal surfaces, there are forces that try to conceal it or to prevent it from becoming widely known. Employees in firm can engage in wrongdoing and potentially hide it. Group pressure contributes to such concealment of corporate scandals. A small group puts pressure on any small number of members who do not agree with the mainstream opinion of the group and also on new members. This group pressure silences those who criticize organizational misconduct and fosters concealment. The process of applying group pressure can be briefly described as follows [6, Chapter 13].

- (1) Providing explanations that sound plausible, members of a small group persuade those who have suspicions about the members' actions and conjectures that these are appropriately conducted.
- (2) Pressure is put on members who have doubts about supporting the opinions of the majority.
- (3) To avoid be placed under such pressure, members stop raising doubts.
- (4) Members maintain their silence, which is interpreted as agreement with the opinions of the majority.

People or small groups who commit wrongdoing fear its revelation. Therefore, members of a group put pressure on other members who disagree with them. If such pressure is widespread within an

Table 2: Symptoms of groupthink and their consequences

Symptom		Consequence
1	Optimistic illusion that members' own situation is absolutely fine	Insufficient consideration of alternatives
2	Underestimation of warnings from outside; failure to reconsider their own assumptions	Insufficient consideration of objectives
3	Blind belief of self-righteousness; disregard for ethics and morals	No consideration of risks associated with decided matters
4	Biases toward or underestimation of external groups	No reconsideration of initially rejected alternatives
5	Pressure on those who disagree	Insufficient collection of information
6	Self-restraint from raising doubts	Biased analysis of information
7	Illusion of consensus	No consideration of alternatives in case of failure
8	Ignoring information that disproves group consensus	Ultimate reduction in the likelihood of success

Table 3: Measure to discourage groupthink

Measure	
1	The leader of a group assigns each member the task of keeping a critical eye.
2	The leader initially refrains from stating opinions or expectations (so that others do not take up the leader's opinion).
3	Each member is encouraged to seek opinions from trusted outsiders about the group's opinions.
4	Outside experts are included in the group's discussions.
5	Arrangements are made so that at least one member always plays the role of making counterarguments.
6	The leader secures, in advance, time for considering warnings from outside.
7	It is examined whether opportunities exist for all members to acquire new knowledge and learn new information.
8	It is examined whether members recognize the importance of complying with laws, rules, and regulations.
9	It is examined whether members recognize the risks associated with uniform opinions and uniform thinking.

organization, noticeable symptoms will emerge inside the organization. What consequences would follow the emergence of such symptoms? Table 2 [7] summarizes symptoms and their consequences.

As Table 2 shows, organizational culture is considered to entail risks when symptoms or consequences of groupthink surface in the organization. In such a situation, the likelihood of a scandal occurring in the organization is naturally high. This makes it difficult to prevent corporate scandals. Therefore, groupthink can be deemed as a root cause of corporate scandals and their concealment.

#### 4.3. Measures to Discourage Groupthink

Once the symptoms and their consequences

shown in Table 2, which are associated with corporate scandals, are considered, it is necessary to examine countermeasures. Table 3 [7] briefly summarizes proposed countermeasures.

These measures listed in Table 3 are my proposals. For organizational culture it is favorable that employees make statements and take actions in a uniform manner. But, in fact, organizational culture with few opportunities for disagreement is likely to become a hotbed of scandals and concealment. The measures shown in Table 3 are thus important for implementing corporate governance. They are substantially effective in controlling an organization as they promote checks and balances. One could say, however, that if a firm has a need for these measures, scandals may have already occurred at the firm.

## 5. Conclusion

In order to solve the organizational scandals in corporate governance, this paper focused on the mechanism of the small group in the firms. A person with the authority and power in an organization especially utilizes the effect of small group dynamics. There, the concept of group-thinking becomes important. The organizational scandals should not be admitted in the whole firm. It is important that there is union power in the whole organization. (i.e., group cohesiveness) However, the situation of justifying solution of organizational scandals is very dangerous. (Namely, state where group cohesiveness is high) The management which controls this is required. It is completing in an organization the system a dissenting opinion being pointed out. When this was the management which controls the organizational scandals, it came to a conclusion. Elsewhere, repeating making a competitive position and a personnel reshuffle etc. has an effect in a firm. These are future subjects.

### [Notes]

- [1] The following two articles were referred to for the concept of corporate governance.: Tanaka, M., 1998, *Corporate governance of Japan: From the viewpoint of structural analysis*, The Economic Research Institute, the Economic Planning Agency, pp. 1-6. (In Japanese) Shinkawa, M., Kikuchi T. (Supervised), Ota S., Kanayama, K., Sekioka, Y., 2012, *Corporate governance and administrative behavior*, Bunshindo Publishing Co., pp. 3-4. (In Japanese)
- [2] Murakami, N., Yoshizaki, S., 2008, *The reason corporate Scandals does not stop*, Fuyoshobo, Co. (In Japanese)
- [3] Sakai, H., Morita, M., Toma, M. ,1998, "The leadership theory revisited", *Bulletin of Sano International Information Junior College*, No. 9, pp. 169-200. (In Japanese)
- [4] Here, it is necessary to take up theoretical Approaches for Explaining about the Occurrence of Corporate Scandals. Next, the research to mention is very excellent.: Majima, T., 2007, *The scandals of an organization: Analysis by a corporate culture theory*, Bunshindo Publishing Co., pp. 8-21. (In Japanese) Here, this was referred to. Researchers have

conducted various studies on factors in corporate scandals. A survey of the literature identifies some major factors, which are discussed below.

**Rational Choice by Individuals or the Organization:** In an organization, individuals make rational choices in a way that they do not suffer disbenefits resulting from their own statements and actions. Simply put, their actions are based on potential gains and losses. For example, individuals take into account concerns about formal punishment, ethical qualms about engaging in illegal activities, disadvantages from abiding by rules, ideas about the justifiability of regulatory and legal procedures, and benefits from disregarding rules. When disbenefits from pointing out a criminal act exceed benefits individuals justify the wrongdoing.

**Differential Association:** Differential association pertains to the way that individuals interact with their bosses and colleagues, which is learned through experience. In particular, individuals often conduct illegal actions unhesitatingly for the sake of profit when they consider that such actions are a necessary part of their jobs. When individuals perceive norms that are lenient toward criminal acts through workplace interactions, wrongdoing becomes justified.

**An Atmosphere Fostering Irresponsibility:** Organizations and their members tend to impose a psychological norm requiring blind conformity and submission, to suppress the voice of conscientious individuals who notice problems, and to eliminate those who raise their voice. With regard to conformity, it is human nature that people become uneasy when no one else shares their opinion. Submission refers to yielding to social pressure and taking actions against one's will. Also, there is a "risky shift," which pertains to groupthink: group decisions rather than individual decisions lead to risky choices, which consequently give rise to organizational scandals. In any case, these elements constitute an atmosphere that fosters irresponsibility.

**Breach of Defense in Depth:** Organizations usually protect themselves against potential risks with layers of security measures. Such protection is called defense in depth. It is put in place by immediately relevant workers based on organizational factors, and is broken by some employees' insecure actions. Once a breach occurs, potential risks materialize and then cause damage to the entire organization or even to outside entities.

**Anomie:** The state of anomie is seen in a society where the social authority and norms that regulate and control various desires are weakened. It is attributed to chaotic conditions in terms of people's desires and behavior that are caused by disturbance, loosening, or collapse of social norms when social change occurs. In such a situation, organizations engage in production without a plan and face conflicts of interest, which can result in wrongdoing.

Facing a tense situation where discrepancies exist between initial goals and currently available measures (operational resources), organizations deviate from the proper course of action and engage in wrongdoings in an attempt to achieve the initial goals.

For organizations that justify wrongdoing, the above concepts are part of their organizational thinking.

- [5] We performed the questionnaire in March, 2014 to the small and medium-sized firms (200 companies) in Japan. Here is based on these results of an investigation. In addition, this research is conducted by Wako Institute of Social and Cultural Science.
- [6] Toma, M., 2009, "Chapter 13: Management of Small Groups and Team," Aoki, M., (Ed.), *Management Theory: Harnessing People and Organizations*, Yachiyo Shuppan Co., pp. 251-263. (In Japanese)
- [7] The following homepage was referred to for the Symptom, the Consequence, and the Measure of this group-thinking. "Practical term description" <<http://www.educate.co.jp/glossary/3-education/100-group-think.html>> (The last access: 2014.6).

#### [Reference]

- Itami, H., 2000, *Japanese Corporate Governance*, Nikkei Inc. (In Japanese)
- Kagono, T., 2014, *Who is the subject of management?*, Nikkei Publishing Inc.
- Kanda, H., 2005, *The Role of Corporation Law in Disciplining Corporate Governance*, Chuokeizai-Sha, Inc. (In Japanese)
- Saito, S. (Supervised), 2007, *Corporate Scandals -A Study of 150 cases-*, Nichigai Associates, Inc. (In Japanese)
- Takahashi, M., 2007, "Inertia and Innovation," *Mita-Shogaku*, Vol. 50, No. 4, pp. 83-95. (In Japanese)
- Toma, M., 2012, "A Study on the Organizational Climate Change to Lead the Rejuvenation," *Wako Keizai*, Vol. 45, No. 1, pp. 17-25. (In Japanese)
- Wakabayashi, M. (Supervised), Matsubara, N., Watanabe, N., Kido, Y., 2008, *Organizational and Managerial Psychology*, Nakanishiya Shuppan, Co. (In Japanese)

(Received Jun. 6, 2014)  
(Accepted Jun. 23, 2014)